

## **Present Position and Challenges of FDI in Retail Banking**

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### **ABSTRACT**

Retail banking in India has emerged as one of the major drivers of the overall banking industry and has witnessed enormous growth recently. India being a signatory to World Trade Organization's General Agreement on Trade in Services had to open up the banking sector to foreign investment also. FDI stands for Foreign Direct Investment, a component of a country's national financial accounts. FDI is investment of foreign assets into domestic structures, equipment, and organizations. It does not include foreign investment into the stock markets. This research has called for financial institutions to be more entrepreneurial, flexible, adaptive and innovative so as to effectively meet the changing demands of today's population and progress around the globe. The research problem in the paper is to study the issues and challenges of FDI in retail banking in India and to analyze the impact of FDI on retail banking.

**Keywords:** FDI, Innovative practices, Retail banking, Communication technology, Scientific management.

### **INTRODUCTION**

FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. It can be a subsidiary, joint venture or merger or acquisition and includes Greenfield and Brownfield projects. So, Foreign Direct Investment is an investment made by a foreign company or entity into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant

degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies. OECD has defined FDI as investment by a foreign investor in at least 10% or more of the voting stock or ordinary shares of the investee company. In India through the potential of FDI sustained economic development can be achieved remarkably in retail banking.

Retail banking is one-stop shop which executes transactions directly with consumers. It is typical mass-market banking which encompasses various financial products viz.,

different types of deposit accounts, housing, consumer, and other types of loan accounts, demat facilities, insurance, mutual funds, credit and debit cards, ATMs and other technology-based services, stock-broking, payment of utility bills, reservation of railway tickets, Auto debit facilities etc., Retail banking needs viability. Viability is possible if scientific management is applied in banking operations and innovative practices are introduced.

## REVIEW OF LITERATURE

According to the news-paper Indo-Asian News Service, Washington, (December 09, 2011) U.S. has said that foreign direct investment in retail banking would be beneficial to both India and the US. U.S. is happy for getting the opportunity of business in India, world's second largest market. In a Discussion of FDI by business experts in Uttar Pradesh organized by Hindustan Times Conclave among industry, traders and experts reveals that the industry people dread it, the business community are against it and the experts are favouring it. Retail banking has vast opportunity as A.T. Kearney, a global management-consulting firm, recently identifies India as the second most attractive retail destination of 30 emergent markets. Avasthi & Sharma have analyzed that advances in technology are set to change the face of banking business.

## RESEARCH METHODOLOGY

Testing the proposed framework is done with empirical as well as conceptual

research design. Data and information for the research study were collected and analyzed with the help of primary data. A primary survey was administered to a randomly selected sample of 120 respondents through questionnaire. The researcher in the study has used established likert scales to measure all constructs. Respondents are asked to indicate their level of agreement with a given statement by way of an ordinal scale. Tabulation and categorisation of the data collected was done in order to apply statistical tools. Some general tools like mean, mode, median, standard deviation and measure of skewness is used. For the purpose of in depth analysis of data test of significance and t test were used. The graphical presentation of the findings was also done in form of pie charts. The model proposed was emerging from the study findings and suggestions.

## A VIEW OF RETAIL BANKING AND FDI IN INDIA

Currently, India is the 5th largest retail banking market in the world. The country ranks fourth among the surveyed 30 countries in terms of global retail development. The economy of India has recorded a growth of above 5% in the last two decades. A report of Goldman Sachs which is the one of the leading investment banks says that India would be the 3rd largest economy in the world by 2050. The surplus money that is left in the hands of the people after their basic needs given rise to the desire of investing in various banking products that are offered by the banks.

### Present Retail Portfolio of Banks

ITEMS	Year	Housing Loans	Consumer Durables	Credit Card Receivable	Auto Loans	Personal Loans	TOTAL
Outstanding as at end march	2011	3,607	46	187	1002	2469	7310
	2012	4118	27	223	1162	3069	8599

Source: Based on Off-site returns of RBI (domestic).

RBI has directed that within the next five years the banking system must be extended to India's villages as part of financial inclusion. Simultaneously it is equally important to bring up the retail banking sector of India to a global platform with the help of FDI.

It is practically and fundamentally impossible for any nation to exclude itself from world economy. Therefore, for sustainable development, one has to adopt integration process in the form of liberalization and globalization as India spread the red carpet for

foreign firms in 1991. The impact of globalization becomes challenges for the domestic enterprises as they are bound to compete with global players. If we look at the Indian Retail Banking Industry, then we find that there are 36 foreign banks operating in India, which becomes a major challenge for Nationalized and private sector banks. These foreign banks are large in size, technically advanced and having presence in global market, which gives more and better options and services to Indian traders.

**Present deposits growth across the bank YoY % is as follows:**

	<b>SBI &amp; associates</b>	<b>National banks</b>	<b>Foreign banks</b>	<b>Regional rural bank</b>	<b>Private bank</b>	<b>Old private sector</b>	<b>New private sector</b>
<b>Jun12</b>	16.7	14.9	13.4	13	18.6	21.1	17.7
<b>Sep12</b>	16.3	13	7.3	14.1	13.4	14.3	13.1
<b>Dec12</b>	14.2	10.1	8.8	12.1	11.6	15.4	10.3
<b>Mar13</b>	15.5	12.9	2.6	12.8	19.5	20.1	15.3
<b>Jun13</b>	13.9	13.6	7.1	12.9	14.4	15.3	14.1

## **INTERPRETATION AND VALIDATION OF SOME ELEMENTS USED IN THE STUDY**

The problem statement of the thesis whether the dream of Dr. A.P.J Abdulkalam, former president of India can be fulfilled by 2020 "All amenities of urban India will be available in rural India". The focus of this study is whether retail banking can be an instrument to minimize the gap of urban and rural India. What will be the interventions

**STUDY 1**-Scientific management: Indian Retail banking rest on trust, transparency and values. 120 respondents were put to the question you have been suggested to apply scientific management in your banking business, give priority to the elements. Refer to table 1. In the responses highest bid was for increase in quality of services 499(22.07%) which was followed by the use of digital technology 470 (20.79%).

**STUDY-2** Innovation: "What will be the world of work look like in 2050? Linda Gratton UK replies "Innovation and entrepreneurship is in store." The respondents were asked in a questionnaire you have to increase technical efficiency of your banking practices which method you prefer to promote. The responses have been tabulated mobile banking 499(22.85%) and ATM banking 481(22.02%) and the highest preference was for internet 573(23.49%).

## **HYPOTHESIS TESTING**

A tentative statement about something, the validity of which is usually unknown is called Hypothesis. Hypothesis brings clarity to the research problem and focuses to the main objective of study signifying what specific aspects of a research problem are to investigate. Hypothesis No.1-Scientific management can improve the efficiency of the bank.

Based on above statement question was put to

120 respondents.

You have been suggested to apply scientific

management in your banking business. Give priority to the Elements.

#### The responses have been tabulated in table

Occupation	Reduce cost of banking operations	Optimize resource utilization	Increase Quality of Services	Use Digital Technology	Reduce Time in Operation	Total
Private	102	117	123	113	98	553
Corporate	48	52	65	62	49	276
Industry	9	12	13	14	12	60
Govt	197	194	219	205	180	995
Business	68	81	79	76	73	377
Total	424	456	499	470	412	2261
Percentage	18.75	20.17	22.07	20.79	18.22	100.00

MEAN = 452.2 (21.00%)

MEDIAN = 456 (21.17%)

MODE = 499 (23.17%)

#### MATHEMATICAL CALCULATION

The equation of Hypothesis testing, applying t-test  $t = (\bar{X} - \mu) / \sigma$

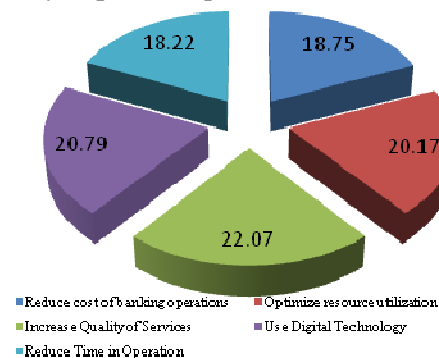
Solving The Problem by substituting the values  $t_{cal} = 0.241$  And tabulated value of  $t$  at 4 degrees of freedom is 2.132. Since  $t_{cal} < t_{tab}$  hence we accept  $H_0$ . The variation is less than 0.5%.

The result reveals that the Null Hypothesis holds true. Thus Null hypothesis  $H_0$  is accepted.

Hypothesis-2 Innovation is essential in banking to meet the present day efficiency and technological need.

Based on above statement the following question was put to 120 respondents

Question- You have to increase technical efficiency of your banking practices which method you prefer to promote:



#### The responses have been tabulated in table 2

Occupation	Mobile Banking	Internet Banking	ATM Banking	Voice Recognition Banking	Bank Premises Visit Banking	Total
Private	123	120	120	84	91	538
Corporate	57	63	50	47	42	259
Industry	11	14	14	9	8	56
Govt	222	235	216	157	150	980
Business	86	81	81	56	47	351
Total	499	513	481	353	338	2184
Percentage	22.85	23.49	22.02	16.16	15.48	100.00

MEAN = 436.8 (20.28%)

MEDIAN = 481 (22.34%)

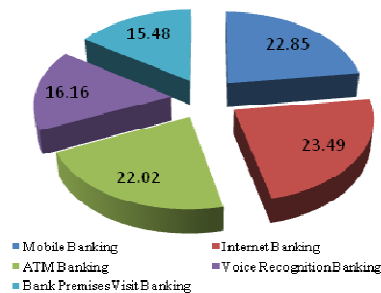
MODE = 513 (23.82%)

## MATHEMATICAL CALCULATION

The equation of Hypothesis testing, applying t-test  $t = (\bar{X} - \mu) / \sigma$

Solving The Problem by substituting the values  $t_{cal} = 1.169$  And tabulated value of  $t$  at 4 degrees of freedom is 2.132. Since  $t_{cal} < t_{tab}$  hence we accept  $H_0$ . The variation is less than 0.5%.

The result reveals that the Null Hypothesis holds true. Thus Null hypothesis  $H_0$  is accepted.



## MATHEMATICAL MODELING

**Real Life Problem:** Challenge to double the retail banking business by 2023.

**Problem in Mathematical terms:**

Compounded Annual Growth Rate (CAGR) =  $[\text{End Value} / \text{Beginning Value}]^{1/\text{no. of years}} - 1$

**Solving the problem:** Retail Portfolio of Bank is 5, 89,900 crores in 2012.

$\text{CAGR} = [11,79,800 / 5,89,900]^{1/10} - 1 = 7.177\%$

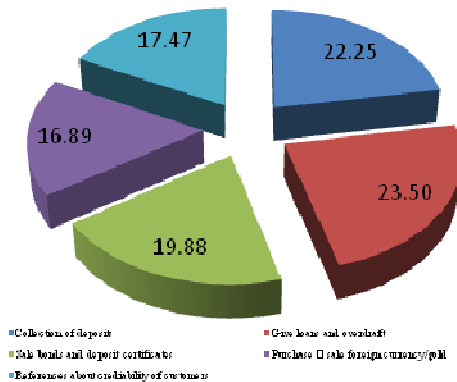
**Interpretation of Solution:** the answer reveals that growth rate should be 7%

**Assumptions:** Inflation & Technological change in the economy remains unchanged.

**Validating The Model:** The solution captures the real life situation. Thus model is suitable. Survey conducted with question: **Which Operations should be developed in Rural India?**

### The responses have been tabulated

Occupation	Collection of deposits	Give loans and overdraft	Sale bonds and deposit certificates	Purchase & sale foreign currency/gold	References about crediability	Total
Private	112	126	96	82	101	517
Corporate	56	59	50	39	40	244
Industry	9	12	10	8	7	46
Govt.	210	216	192	168	157	943
Business	74	74	64	53	57	322
Total	461	487	412	350	362	2072
Percentage	22.25	23.50	19.88	16.89	17.47	100.00



**Interpretation:** Relative Values are 23.50% is highest and 16.89% is lowest.

**Suggestions:** Efforts should be made to promote the development according to priority basis.

## DISCUSSION

Retail banking customers have ever more demanding expectations of value, choice availability and accessibility of products and services. Finding ways to attain and fulfill these

expectations is forcing the retail banking landscape to change accordingly and rapidly. The dexterity of consumer to internet, mobile mobility and video conferencing is enabling them to seek out the best deals with different marginal and operational structure within or outside the national borders. It can be safely concluded that it is a difficult time to be a banking retailer at a global platform. Increasing consumer demands are driving significance strategic decision around new business models, new operations and new communication channels via mergers & joint ventures.

## CONCLUSION

Banks are striving to combat the competition. The competition from global banks and technological innovation has compelled the banks to rethink their policies and strategies. This strategic business intelligence starts with understanding the consumer to satisfy the balance between seller's strategy of profitability and consumer satisfaction optimization. The study concludes that retailers who can delight their customers across all contact points and occasions globally will build strong relationship that will give incremental revenues to them. It is assumed that advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it because it led not only to the commendable rise in the level of employment but also led to the enormous development of the country's GDP.

## SUGGESTIONS

The decision to do retail banking in a non home country is challenging as you are competing with other geographies and short term revenue opportunities. As per the above discussion, we can say that the biggest

challenge for banking industry is to serve the mass market of India. Companies have shifted their focus from product to customer. The better we understand our customers, the more successful we will be in meeting their needs. In order to mitigate above mentioned challenges Indian banks must cut their cost of their services. Another aspect to encounter the challenges is product differentiation. Apart from traditional banking services, Indian banks must adopt some product innovation so that they can compete in gamut of competition. Technology up gradation is an inevitable aspect to face challenges. Modernization of traditional markets through Public Private Partnerships should be encouraged at global level.

## AREAS FOR FURTHER RESEARCH

1. Trust and Performance In Cross Border Marketing Partnership: A Behavioral Approach of FDI.
2. Impact of Fdi in Indian Economy with Special Reference to Retail Sector in India

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